

*Town of Fountain Hills, Arizona*

# Popular Annual Financial Report

for fiscal year 2011-2012, ending June 30, 2012



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## Welcome

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Members of the Administration Department, Finance Division, are pleased to present the Town of Fountain Hills first ever Popular Annual Financial Report for the fiscal year ended June 30, 2012. This report is intended to present an accessible overview of the Town's financial position and policies, and its commitment to providing responsive services and programs in a fiscally responsible manner.



We share with you details of how the Town's revenue is generated, where the dollars are spent, and how the local economy impacts Fountain Hills' overall financial status. Above all, our goal is to provide you with an opportunity to better understand the many financial aspects that affect your local government.

The financial information provided here is drawn from detailed information found within the fiscal year 2011-2012 Comprehensive Annual Financial Report (CAFR). The financial statements were prepared in conformance with Generally Accepted Accounting Principles (GAAP) and audited by an independent accounting firm, receiving an unqualified (or clean) opinion. The numbers contained within the CAFR were obtained by employing the basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB).

In short, the highest standards of accounting principles have been utilized to ensure full financial disclosure and accountability. Recognition of this commitment is evidenced by the Town attaining the Certificate of Achievement for Excellence in Financial Reporting for 15 consecutive years, and the Distinguished Budget Presen-

tation Award for 11 consecutive years. These awards are presented by the Government Finance Officer's Association of the United States and Canada.

While the numbers in this Popular Report come from an audited source, they are presented in an abridged, unaudited non-GAAP format. Citizens who wish to review audited GAAP-basis financial statements can refer to the Town's 2011-2012 CAFR, which is available online at [www.fh.az.gov/reports.aspx](http://www.fh.az.gov/reports.aspx), or for purchase from the Finance Division.

Members of the Finance Division and staff across the organization are proud to serve this fine community. We hope that the 2011-2012 Popular Annual Financial Report serves its purpose and helps assure you that every effort is made to manage the community's resources wisely for the benefit of all.

Julie A. Ghetty, MPA, CPA, CGFM  
Deputy Town Manager/Finance Director

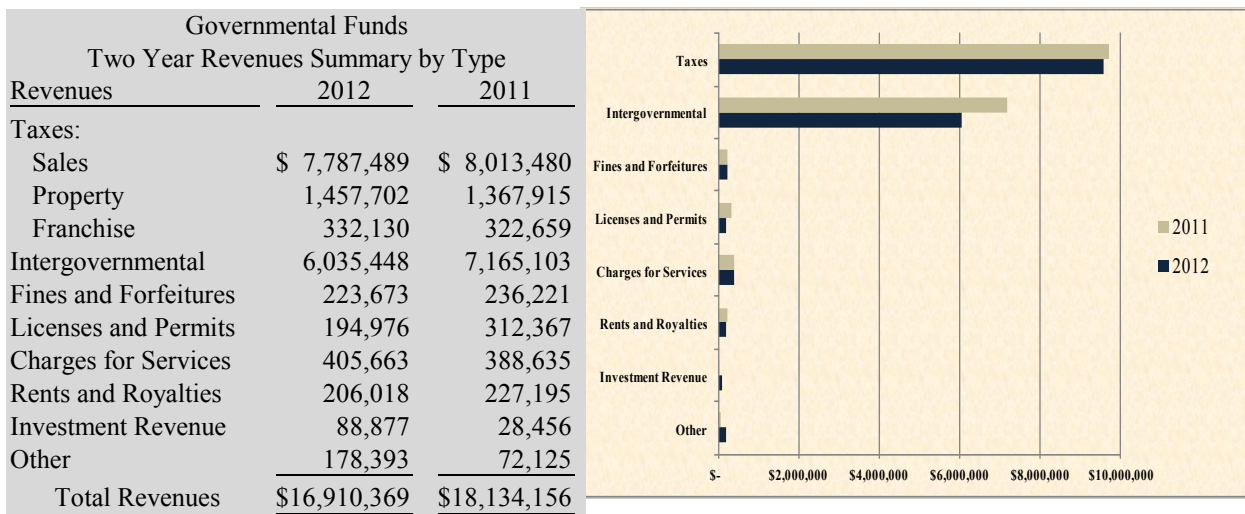


## 2011-2012 Financial Overview

In this section, we present an overview of monies in and monies out for the Town of Fountain Hills for the fiscal year ended June 30, 2012.

### MONIES IN

As a governmental entity, the Town uses fund accounting, or self-balancing sets of accounts segregated for specific activities. Governmental funds are used to account for tax supported activities and the Town receives the funding it needs to provide services to the community from a variety of sources. The table below presents a summary of governmental revenues by primary type for fiscal years 2011-2012 and 2010-2011, in order to present a picture of typical revenues from year to year. The recession and weak economic conditions nationwide contributed to a decrease in revenues of \$1,223,787 or 7.2% compared to 2011. Investment earnings have increased with a revised investment policy. Intergovernmental revenue is shared from the State and distributed based on population, which declined with the 2010 census.



### REVENUE TYPE DEFINITIONS

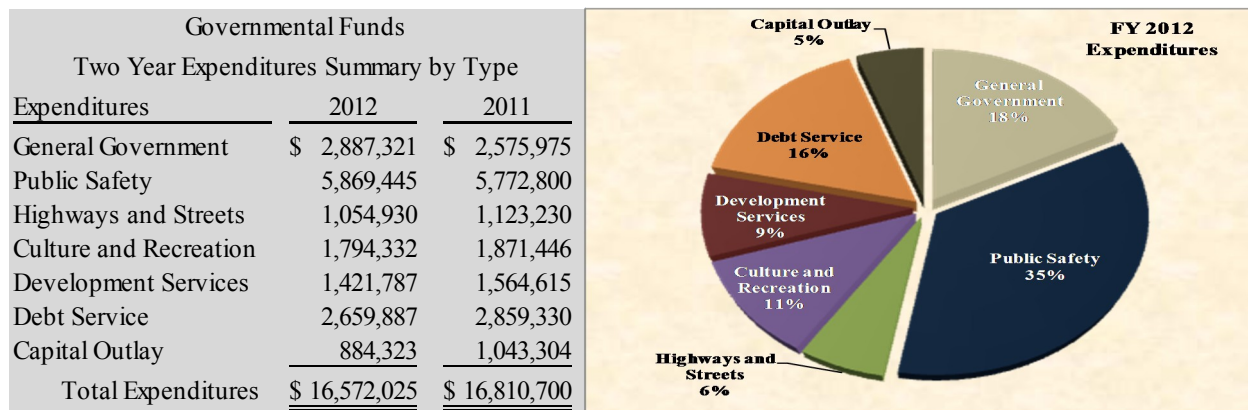
- **Taxes - Sales** - the Town charges a local sales tax of 2.6% on most goods purchased in the Town. This tax is in addition to the State of Arizona rate of 6.6% and the Maricopa County rate of .7%, for a total sales tax rate of 9.9%.
- **Taxes - Property** - the Town does not charge a primary property tax, only a secondary property tax. The secondary tax is for debt repayment on voter approved bonds (specifically the Library/Museum and open space).
- **Taxes - Franchise** - revenue received from utility (telecommunications) companies for the right to operate within the Town.
- **Intergovernmental** - these are revenues received from other governments or entities, including state shared sales tax, state shared income tax, fire insurance premium tax and vehicle license tax.
- **Fines and Forfeitures** - these are revenues received from court fines.
- **Licenses and Permits** - includes building permit fees, business and animal license fees, fire inspections, etc.
- **Charges for Services** - these are revenues received from services and/or programs provided by the Town such as recreation programs.
- **Rents and Royalties** - rental fees for use of the Community Center as well as fees from leases for cellular telephone towers.
- **Investment Revenue** - revenue received from interest on invested monies.
- **Other** - these are revenues that do not fit under another classification.



## 2012 Financial Overview—continued

### MONIES OUT

The two-year comparison below for Town expenditures shows a decrease in the overall cost of operations, primarily due to reduced spending in most departments - overall, 2012 total Governmental Fund expenditures were \$238,675, or 1.4% less than in 2011. With the completion of a major capital road project in 2011, the capital outlay category was 18% less than the previous year; Development Services includes public works projects that were deferred due to the economy. General Government expenditures increased over the prior year as a result of the costs for the bi-annual election for Mayor and Town Council as well as expenditures for upgraded equipment for the Town's public access television channel.



### EXPENDITURE TYPE DEFINITIONS

- **General Government** - functions serving Town operations as a whole, including: Town Council, Town Manager, Town Clerk, Finance, Human Resources, Information Technology, Town Attorney, and Town Prosecutor.
- **Public Safety** - encompasses the contracted services for Law Enforcement and Fire and Emergency Medical departments.
- **Highways and Streets** - represents the Street division.
- **Culture and Recreation** - encompasses the services, programs and facilities provided by Parks & Recreation, Community Center and Senior Services.
- **Development Services** - encompasses Engineering, Facilities, Planning, Building Safety, Code Compliance and Mapping and Graphics divisions.
- **Capital Outlay** - expenditures on the Town's Capital Improvement Program projects.
- **Debt Service** - interest and other related costs affiliated with the Town's issuance of debt to support various capital improvement activities.





## The Town's Net Assets

Town of Fountain Hills Net Assets		
	2012	2011
<b>ASSETS</b>		
Current and Other Assets	\$ 28,669,946	\$ 28,545,371
Capital Assets		
Non-Depreciable	25,934,778	28,304,198
Depreciable (net)	81,921,325	82,314,694
Total Assets	136,526,049	139,164,263
<b>LIABILITIES</b>		
Current and Other Liabilities	3,256,053	3,334,185
Long-Term Liabilities		
Due Within One Year	2,319,551	2,249,113
Due in More Than One Year	11,928,659	14,017,218
Total Liabilities	17,504,263	19,600,516
<b>NET ASSETS</b>		
Invested in Capital Assets, Net		
of Related Debt	92,006,103	92,579,483
Restricted	5,951,416	4,385,595
Unrestricted	21,064,267	22,598,669
Total Net Assets	\$ 119,021,786	\$ 119,563,747



The Statement of Net Assets presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Net assets are categorized by activity type. Governmental activities include services largely funded through revenues such as sales tax and charges for services.

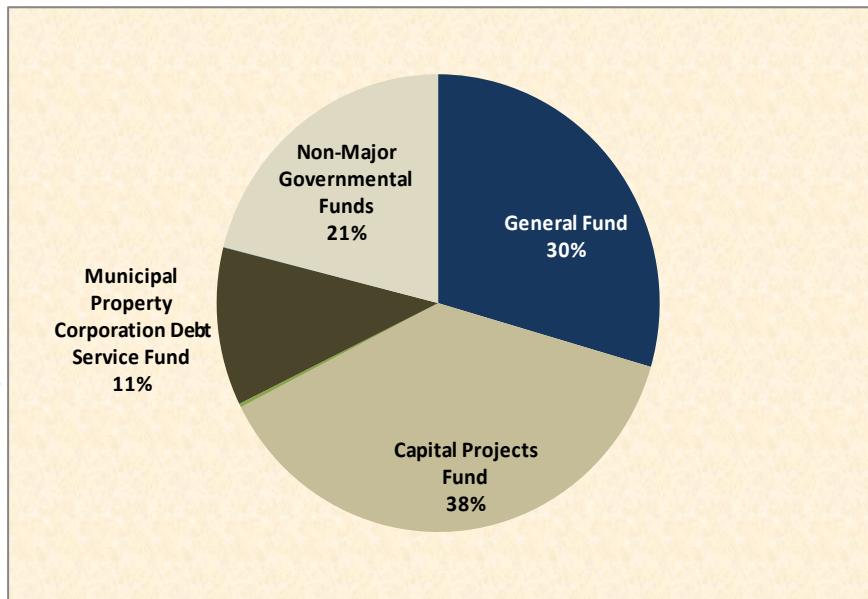
Net assets consist of three components. The largest portion (77%) reflects the Town's investment in capital assets (land, buildings, infrastructure, vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. An additional portion of the Town's net assets (5%) represents resources subject to restrictions on how they may be used. These legal restrictions are imposed by outside entities such as federal or state governments. An example of such a restriction is the gasoline tax. The State of Arizona charges the gasoline tax and shares some of it with communities. These revenues are legally restricted by the State to be used only for expenditure on street projects. Portions of net assets are also restricted to pay debt service and fund capital projects. The remainder of net assets is unrestricted as to purpose.



## The Town's Net Assets—continued

### Fund Accounting

State and local governments, such as the Town, employ fund accounting whereby assets and liabilities are grouped according to the purpose for which they are to be used. Each grouping, or fund, operates as a separate self-balancing set of accounts. The General Fund is the chief operating fund of the Town and General Fund expenditures account for 71% of governmental expenditures. Special revenue funds group revenues raised for a specific purpose. Capital project funds account for the acquisition or construction of major capital facilities. These intended uses can be demonstrated by viewing the components of governmental fund balances. While the fund balance is an important component of fiscal planning and factors into the Town's debt rating, it is anticipated that the balance in the General Fund will decline over the next few years since expenditures are expected to rise at a faster pace than general revenue sources.





## Property Taxes

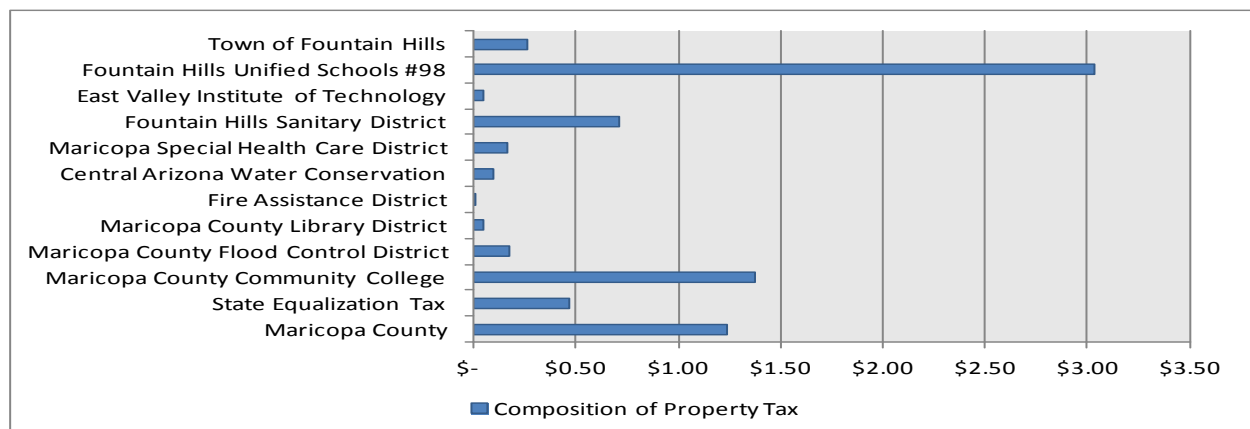
One of the biggest bills residents face each year is tied to the property they own. Property tax in Fountain Hills is administered by Maricopa County, and is based on property value (ad valorem) and typically included with the resident's monthly mortgage payment. As the table indicates, only a small portion (3.5%) of your property taxes go to the Town of Fountain Hills—this portion pays for the annual payment on the bonds approved by voters for open space and the library/museum building. The majority supports Fountain Hills schools, Fountain Hills Sanitary District, and various Maricopa County districts. Currently, property taxes represent one of the smallest and most stable sources of revenue for the Town at 8.6% of total revenues.

Entity	Primary Rate	Secondary Rate
Maricopa County	\$ 1.2407	
State Equalization Tax	\$ 0.4717	
Maricopa County Community College	\$ 1.1563	\$ 0.2215
Maricopa County Flood Control District		\$ 0.1780
Maricopa County Library District		\$ 0.0492
Fire Assistance District		\$ 0.0110
Central Arizona Water Conservation		\$ 0.1000
Maricopa Special Health Care District		\$ 0.1683
Fountain Hills Sanitary District		\$ 0.7069
East Valley Institute of Technology		\$ 0.0500
Fountain Hills Unified Schools #98	\$ 2.2095	\$ 0.8234
Town of Fountain Hills		\$ 0.2657
<b>Total</b>	<b>\$ 5.0782</b>	<b>\$ 2.5740</b>

The primary property tax revenue pays for the basic operating costs of government and schools. The Town does not have a primary property tax for operations.

Revenue from the secondary property tax pays for the annual debt payment on bonds that have been approved by voters and special taxing districts such as the Sanitary District; the rate is set by the County. The rate is calculated

using 10% of the assessed valuation of property (assigned by the County), dividing by 100 and multiplying by the tax rate. For example, a residential property with an assessed value of \$350,000 would pay approximately \$2,678 (\$350,000 x 10% divided by 100 x 7.6522).





## Capital Investments

### How Capital Investments are Funded

The Town's capital outlay consists of investments in our roads, equipment, public facilities, and parks.

Every year, the Town prepares and adopts an on going, Five-Year Capital Improvement Plan that provides for a comparable annual value of infrastructure improvement projects. Town Council and staff review and update the plan each year as part of the budget process. The projects are funded using a combination of grants and existing funds.

The Town's Debt Policy provides a set of criteria to help determine when it's best to fund capital projects using existing revenues, issuing bonds or seeking loans. The Town has an Aa3 bond rating from Moody's Investors Service for the general obligation bonds and an A1 rating for the revenue bonds. These ratings allow the Town to receive very competitive interest rates when issuing debt.

Two Year Debt Summary All Funds		
Debt Type	2012	2011
General Obligation Bonds	\$ 6,845,000	\$ 7,965,000
Revenue Bonds	7,040,000	7,885,000
Total Debt	<u>\$ 13,885,000</u>	<u>\$ 15,850,000</u>

#### DEBT TYPE DEFINITIONS

- **General Obligation Bonds** - long-term debt that is repaid from the Town's available resources.
- **Revenue Bonds** - long-term debt with repayment to come from a pledged Town revenue stream.

### Repayment of Outstanding Debt

Year ending June 30,	Principal	Interest
2013	\$ 2,280,000	\$ 565,506
2014	2,415,000	470,431
2015	1,970,000	375,106
2016	2,830,000	233,806
2017	1,120,000	186,406
2018-2021	3,270,000	302,758
	<u>\$ 13,885,000</u>	<u>\$ 2,134,013</u>

The repayment of debt is funded using secondary property tax and general fund revenues.

### Debt Margin

The State imposes certain debt limitations of 20% and 6% of the net secondary assessed valuation of the Town. For projects involving water, sewer, artificial lighting, parks, open space, public safety, law enforcement, fire and emergency facilities, street and transportation facilities and recreation facilities, the Town can issue GO bonds up to 20%. For any other general purpose improvements, the Town may issue bonds up to the 6% limit.

The Town's available debt margin is \$71.7 million in the 20% capacity and \$22.7 million in the 6% capacity. The Town is currently using only 5% of the 20% capacity and nothing of the 6% capacity.





## Profile of Fountain Hills, Arizona

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The Town of Fountain Hills is a planned, family-oriented community established in 1970 by McCulloch Properties (now MCO Properties, Inc.). Prior to 1970, the area was a cattle ranch and was part of one of the largest land and cattle holdings in Arizona. The land was purchased by Robert McCulloch in the late 1960s and designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year.

Located on 13,006 acres of land, and bordering northeast Scottsdale, Fountain Hills is surrounded by the 3,500-foot McDowell Mountains on the west, the Fort McDowell Indian Reservation on the east, the Salt River Pima-Maricopa Indian Community on the south and by the McDowell Mountain Regional Park on the north. Elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is 500 feet above Phoenix.

Over the past twenty-three years, Fountain Hills has grown from 10,190 residents to a town of approximately 22,500 based on the 2010 census. On June 5, 2006, the Town of Fountain Hills became twenty square miles and about ten percent larger by annexing 1,300 acres of state trust land. The process to annex the state trust land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an opportunity to dem-

onstrate that it is truly the best place to live in the valley.

The Town offers a range of living styles, from small community subdivisions to a number of large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families and adults. The community consists of primarily residential property; of the total 20.32 square miles of land, only 2.2% of the total is zoned commercial and/or industrial, 23.0% is reserved as open space and 51.3% is residential.

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through three department directors and approximately 58 FTE employees. The Presiding Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.



## Profile of Fountain Hills, Arizona—continued

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The Town provides or administers a full range of services including public safety (law enforcement, fire, animal control); development services (code enforcement, planning, and public works); construction and maintenance of streets and infrastructure, municipal court, recreational activities, community center, senior services and cultural events. The Town does not maintain utility or other operations.

The financial reporting entity (the Town) includes all the funds of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Cottonwoods Maintenance District, Eagle Mountain Community Facilities District and Fountain Hills Municipal Property Corporation are included in the financial reports of the Town.

The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, these funds have appropriated budgets. On or before the second meeting in April, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town of Fountain Hills' fiscal year. The budget is legally enacted through passage of a resolution and is prepared by fund and department. The resolution sets the limit for expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20.





## Profile of Fountain Hills, Arizona—continued

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### Awards

Fountain Hills has had its share of accolades. We have been named one of the “10 Great Places to Raise a Family in the U.S.” and have been recognized as “The Best Place to Live in the Phoenix Metropolitan Area.” We have also been listed as “The Best Affordable Suburb” in Arizona. These honors make us proud, and we continually strive to make our community an even better place to live.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the 15th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

In addition, the government also received the GFOA’s Distinguished Budget Presentation

Award for its annual budget for the fiscal year ending June 30, 2012. In order to qualify for the Distinguished Budget Presentation Award, the government’s budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This is the 11th consecutive year that the Town has received the award.

Two hundred thirteen cities and towns, including Fountain Hills, earned recognition from national non-profit KaBOOM! as 2012 Playful City USA communities for their efforts to increase play opportunities for children. Hailing from 44 states, the 213 Playful City USA honorees range from six-time honorees such as Atlanta and San Francisco to 69 first-time recipients. These Playful City USA communities are making a commitment to play and physical activity by developing unique local action plans to increase the quantity and quality of play in their community. In doing so, some of the most innovative concepts and cost-effective programs are being developed in Playful City USA communities.





# Town of Fountain Hills, Arizona

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## Town Officials

### TOWN COUNCIL

Mayor	Ms. Linda Kavanagh
Vice Mayor	Mr. Henry Leger
Councilmember	Mr. Dennis Brown
Councilmember	Ms. Ginny Dickey
Councilmember	Mr. Tait Elkie
Councilmember	Ms. Cassie Hansen
Councilmember	Mr. Cecil Yates

### TOWN MANAGER

Ken Buchanan

### DEPARTMENT DIRECTORS

Deputy Town Manager/ Finance Director	Julie A. Ghatti
Presiding Judge	Mitchell S. Eisenberg
Community Services Director	Mark Mayer
Development Services Director	Paul Mood
Fire Chief	Scott LaGreca, Rural Metro Corporation
District Commander	Captain Joe Rodriguez, Maricopa County Sher- iff's Office
Town Prosecutor	Iacovino & Kayler
Town Attorney	Andrew McGuire, Gust Rosenfeld, P.L.C.

This Popular Annual Financial Report is intended to summarize the financial information appearing in the fiscal year 2011-2012 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR can be viewed on the Town's website at [www.fh.az.gov/reports.aspx](http://www.fh.az.gov/reports.aspx) and are available for purchase at the Administration Department. The data included in this review is not prepared in accordance with GAAP as only a portion of the Town's financial statements are presented.



Arizona Legislature—District 23

U.S. Congress—District 5

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### TOWN HALL

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